ZTEST Electronics Inc.
Managementôs Discussion and Analysis
For The Nine Month Period Ended March 31, 2024
(Prepared as at May 28, 2024)

General

The following managementôs discussion and analysis (ñMD&Aò) of the financial condition and results of operations of ZTEST Electronics Inc. (ñZTESTò or the ñCompanyò) constitutes managementôs review of the factors that affected the Companyôs interim condensed consolidated financial and operating performance for the nine months ended March 31, 2024. The MD&A was prepared as of May 28, 2024, and was approved by the Board of Directors on May 28, 2024. It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the nine months ended March 31, 2024, and the audited consolidated financial statements for the year ended June 30, 2023, including the notes thereto. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Additional information about the Company can be found at www.sedar.com.

The Company

ZTEST is located at 523 McNicoll Avenue, Toronto, Ontario. Through its wholly-owned subsidiary, Permatech Electronics Corporation (ñPECò), the Company operates a single business segment developing, and assembling printed circuit boards and other electronic equipment. The Companyôs shares trade on the Canadian Securities Exchange under the symbol "ZTE".

The Companyôs management is currently as follows:

Name	Position(s)
Steve Smith	Chairman, President & Chief Executive Officer
K. Michael Guerreiro (1, 3)	Director (Independent)
William R. Johnstone, LLB (1*,4)	Director and Corporate Secretary
Derrick Strickland (1)	Director (Independent)
Dean Tyliakos (1, 2)	Director (Independent)
Michael D. Kindy, CPA (2)	VP Finance & Chief Financial Officer
Suren Jeyanayagam (2)	President of PEC

* Acts as Committee Chair
(1) Member of the Audit Committee
(2) Director of Permatech Electronics Corporation.
(3) Director of Conversance Inc.
(4) William R. Johnstone was appointed to the Board, filling the vacancy created upon the resignation of Don Beaton. Immediately following his appointment, William R. Johnstone was added to the Audit Committee and then appointed as Chair, replacing K. Michael Guerreiro who remained on the Committee.

Corporate Performance

The third quarter of 2024 has once again resulted in the reporting of record periodic revenues and profitability as net income rose 5.4%, and revenues 6.7%, above the previous high-water marks established in the immediately preceding quarter. Based on this performance, it follows that the Company has not previously reported revenues of almost $7M for the first nine months of any fiscal year, nor net income exceeding $1.2M. Revenues for the quarter were 64.6% greater than Q3-2023, and year-to-date revenues were 78.4% more than the first nine months of the 2023 fiscal year. Also, revenues for the nine months ended March 31, 2024 are 22% greater than reported for the 2023 fiscal year meaning that, when it is complete, 2024 will represent the third consecutive fiscal year with double-digit revenue growth.

Much of this revenue growth has been attributed to market expansion resulting from pent up demand caused by the pandemic and the ensuing supply-chain disruptions. In-house experiences, and customer feedback, leave no doubt this has been a factor however no data is available that allows us to measure these effects or whether they may continue to be a factor. Although the Companyôs order log remains strong there have been recent indications, like a reduction in requests for quotations and assertions from key suppliers that their business volumes are softening, which suggest that market demand may be easing. It is too soon to know whether these indications are fleeting or may be suggestive of future results.

Corporate Performance - continued

During this growth period, the Company has realized expansion of its customer base and increases in the value of orders being placed by recurring customers, suggesting that the pent-up demand has been accompanied by increased market share. The Companyõs extensive history of reliability of both products and service and its continuing emphasis on customer service are expected to continue to attract and retain customers. In addition, the recent arrival of the new equipment is expected to further enable the Company to maintain and further grow its revenue base. The new equipment, which is in process of being made fully operational and offers certain efficiencies and a greater breadth of capabilities, will supplant older equipment to form one of two fully operational production lines. The supplanted equipment will be used for production when required but is intended to be used primarily for prototypes and other very small runs thereby making those services more readily available to customers without disruption to primary production.

In addition to the revenue growth, the Company continued to improve all aspects of its liquidity as well as capital under management and each of these will be further enhanced by a private placement completed May 8, 2024. Through that private placement the Company issued 5,040,000 working capital units for gross proceeds of $1,260,000. Each working capital unit was comprised of one common share priced at $0.25 and one-half of a common share purchase warrant. Each full warrant entitles the holder to acquire one common share at $0.30 until November 8, 2025. The Company paid findersô fees of $54,845 and issued 219,380 broker warrants with each broker warrant entitling the holder to acquire one common share at $0.25 until November 8, 2025.

The following data may provide some additional insights relative to the Companyõs operating performance and financial position:

	For the fiscal years ended:		
	June 2023	June 2022	June 2021
Total Revenues	5,702,239	4,415,275	4,009,460
Net income (loss) for the year	165,274	(266,878)	45,762
Per share - basic	0.006	(0.010)	0.002
Total assets	3,941,742	3,081,924	3,120,759
Total long-term financial liabilities	518,717	729,032	948,791
Total liabilities	2,834,331	2,198,767	2,116,323

	For the fiscal quarters ended:			
	Mar. 2024	Dec. 2023	Sept. 2023	June 2023
Total Revenues	2,625,282	2,459,917	1,879,486	1,797,424
Net income (loss) for the period	531,438	504,329	171,884	172,983
Per share - basic	0.007	0.018	0.006	0.006
Total assets	5,646,648	4,418,818	4,504,461	3,941,742
Total long-term financial liabilities	292,168	360,027	456,015	518,717
Total liabilities	2,888,145	2,277,704	3,225,166	2,834,331

	For the fiscal quarters ended:			
	Mar. 2023	Dec. 2022	Sept. 2022	June 2022
Total Revenues	1,594,507	1,141,352	1,168,956	1,677,062
Net income (loss) for the period	191,154	(112,126)	(86,737)	114,966
Per share - basic	0.017	(0.004)	(0.003)	0.004
Total assets	4,000,133	3,206,695	3,325,446	3,081,924
Total long-term financial liabilities	556,678	614,619	672,075	729,032
Total liabilities	3,088,834	2,486,550	2,493,175	2,198,767

There were no cash dividends paid or accrued during any of the periods noted above.

Results of Operations

As noted previously, revenues were up for the third quarter, representing the fifth consecutive quarter for which revenues increased in comparison to the immediately preceding quarter and the ninth consecutive quarter for which revenues have risen in comparison to the same period one year earlier. All current indications are that revenues for Q4 2024 will exceed Q4 2023 but surpassing Q32024, and setting another new revenue record, seems improbable particularly with disruption for the installation and activation of the new equipment.

Like revenues, gross margins also continue to grow. The gross margin for the nine month period was 149% greater than for the first three quarters of 2023, inclusive of the third quarter where margins increased more than 110% year over year. the growth rate for these margins continues to outpace the revenue growth as the Company continues to realize certain economies of scale and because there are certain costs, like depreciation, that are not correlated with production volumes. Future margins will be affected by production volumes, equipment acquisitions, and inflationary pressures from the elements of cost of product sales.

To better understand gross margins, one must look more closely at cost of product sales. The different elements of cost of product sales for the periods ended March 31 were as follows:

Nine-month periods:	2024	2023	Change
Raw materials and supplies consumed	$ 3,231,843	$ 1,964,499	$ 1,267,344
Labour costs incurred	813,091	631,779	181,312
Depreciation	58,759	73,065	(14,306)
Other costs	138,931	134,738	4,193
Net change in finished goods and work in process	(25,137)	(506)	(24,631)
Total cost of product sales	$ 4,217,487	$ 2,803,575	$ 1,413,912

Three-month periods:	2024	2023	Change
Raw materials and supplies consumed	$ 1,124,210	$ 749,876	$ 374,334
Labour costs incurred	275,595	225,344	50,251
Depreciation	19,586	24,355	(4,769)
Other costs	45,529	46,493	(964)
Net change in finished goods and work in process	36,059	15,411	20,648
Total cost of product sales	$ 1,500,979	$ 1,061,479	$ 439,500

The cost of raw materials and supplies consumed rose approximately 50% in the most recent quarter and were 64.5% greater year-to-date, in comparison to the corresponding periods ended March 31, 2023. Once again, and as expected, these cost increases are less than the corresponding revenue increases for the same periods. Materials costs equated to 42.8% of revenues for the quarter and 46.4% of revenues for the nine month period as compared to 47.0% and 50.3% for the same periods one year earlier. These percentages always vary from period to period as the relative values of materials, and the labour and overhead required to complete the assembly, differs from one product to the next. In addition, the comparative amounts include some costs that were inflated as a byproduct of the supply-chain disruptions that were quite prevalent at that time. It is anticipated that costs will continue to fluctuate from period to period and that the cost escalations from last year will not recur for the foreseeable future.

Labour costs incurred also continued to rise at a pace less than revenue growth. Costs for the quarter were up more than 22%, representing the sixth consecutive quarter for which these costs rose. On a year-to-date basis these costs are up more than 28%. Theses increases are a by-product of increased labour capacity, increased overtime, and increased pay rates. Overtime is a function of labour demand even though there have also been additions to production personnel. In addition, pay rates have increased in the current year by more than the historical norm due to the ripple effects of legislated increases to minimum wage.

Results of Operations - continued

The net change in finished goods and work in process is a measure of the change in labour costs included in inventory. Although the inventory figure includes an element of overhead it still must be combined with labour costs incurred to be indicative of the net labour costs included in cost of product sales for the period. These aggregate costs were $311,564 for the most recent quarter, as compared to $240,755 the year before, representing an increase of 29.4%. For the nine month period, the net costs were $787,954, or 24.8% more than the $631,273 reported one year prior. The increase for the quarter exceeds both the increase in labour costs incurred for that period as well as the year to date increase. This was expected as there is almost always a larger increase in net labour costs in a period for which material costs declined as a percentage of periodic revenues.

Depreciation costs have declined, in line with expectations. The most recent significant asset acquisition was put into service at the start of the 2022 fiscal year, adding to depreciation in the 2022 and 2023 fiscal years, after which those charges started to decline. This cost reduction will cease in the final quarter, after the newly acquired equipment is made operational.

Other costs include repairs and maintenance, stencils and tooling, packaging, and freight costs net of amounts recovered. Each of these costs is incurred on an as-warranted basis, are closely monitored, and are consistent with the Companyøs expectations.

Selling, general and administrative expenses for the periods ended March 31 were as follows:

Nine-month periods:	2024	2023	Change
Employee and consultant compensation	$ 812,538	$ 665,247	$ 147,291
Occupancy costs	252,311	241,960	10,351
Professional fees	84,127	58,681	25,446
Shareholder services	15,718	21,983	(6,265)
Insurance	27,858	27,997	(139)
Other costs	38,947	40,334	(1,387)
Total selling, general and administrative	$ 1,231,499	$ 1,056,202	$ 175,297

Three-month periods:	2024	2023	Change
Employee and consultant compensation	$ 272,818	$ 209,152	$ 63,666
Occupancy costs	85,485	81,946	3,539
Professional fees	32,045	18,734	13,311
Shareholder services	5,122	4,047	1,075
Insurance	9,774	9,092	682
Other costs	10,491	12,358	(1,867)
Total selling, general and administrative	$ 415,735	$ 335,329	$ 80,406

Employee and consultant compensation costs, which include salaries, benefits, consulting fees, and directorsô fees were highly comparable year over year except for the impact of annual increases and performance bonuses based on the profitability of Permatech.

The Companyøs current facilities lease took effect April 1, 2021 and resulted in the recognition, and amortization, of a right of use asset. This asset is subject to amortization charges which remain consistent over the term of the lease and represent a significant element of occupancy costs for each of the periods presented. Minor fluctuations result from variable demand and rates applicable for utilities and variances in common area maintenance charges. It is anticipated that occupancy costs will remain relatively comparable from period to period until the current lease expires in March 2026.

Results of Operations - continued

Professional fees are comprised of fees for legal services as well as the costs related to the annual financial statement audit and filing of annual tax returns. Fees related to filing the annual tax returns have remained consistent while audit fees and legal fees each rose. Legal fees increased due to increase matters related to the Companyøs securities, governance, and other administrative matters including assisting in the search for a new auditor. During the period the Company was advised by its previous auditor that they were retiring from the audit of public companies and that we would need retain a new auditor in advance of the 2024 audit. We investigated alternatives available to us and retained a new auditor, albeit at a higher anticipated fee than the predecessor which accounts for the increase in audit fees.

Shareholder services are generally comparable for the most recent quarter but continue to be lower on a year-to-date basis because of the costs related to the shareholders meeting held September 30, 2022.

Insurance costs reflect minor premium reductions realized upon the most recent renewal of business insurance. There has been no alteration in the nature of the any insurance coverages that that Company maintains.

Other costs are closely monitored, are within management expectations, and are consistent from period to period.

The costs of financing for the periods ended March 31 were as follows:

Nine-month periods:		2024		2023		Change
Interest expense ï long term	$	4,067	$	5,623	$	(1,556)
Interest expense ï other		2,790		3,153		(363)
Interest expense ï lease liability		10,519		14,647		(4,128)
Total financing expenses	$	17,376	$	23,423	$	(6,047)

Three-month periods:		2024		2023		Change
Interest expense ï long term	$	1,213	$	1,718	$	(505)
Interest expense ï other		76		2,362		(2,286)
Interest expense ï lease liability		3,153		4,551		(1,398)
Total financing expenses	$	4,442	$	8,631	$	(4,189)

Results of Operations - continued

The Company initiated new term financing in April 2021 in relation to the acquisition of new equipment and has been making all regular monthly payments. The reduction in interest costs is reflective of the declining balance of the loan. The interest rate on this loan is fixed so related interest costs will continue to decline until the loan reaches maturity April 2026.

Interest expense ï other represents interest arising from the use of the Companyøs operating line as well as miscellaneous interest charges incurred. The Company made use of its operating line briefly during the first quarter of this fiscal year, and again during the most recent quarter, resulting in the increase in interest costs.

The Companyøs lease extension for its operating facility commenced April 1, 2021 and resulted in the recognition and amortization of a right-of-use asset and the recognition of a lease liability. That lease liability then gives rise to imputed interest costs, based on the discount rate, over the term of the lease. The imputed interest costs will continue to decline until the lease liability expires March 31, 2026.

Liquidity

On March 31, 2024, the Company had working capital of $2,341,265 (June 30, 2023 ï $732,326) and current financial assets of $2,915,729 (June 30, 2023 ï $1,190,379) available to settle current financial liabilities of $2,595,977 (June 30, 2023 ï $2,315,614). The Company also has access to a $1,000,000 (June 30, 2023 - $500,000) bank operating line, of which $Nil (June 30, 2023 ï $110,000) had been drawn on March 31, 2024.

Liquidity - continued

In addition to satisfying the cost of operations, the Company must also address the settlement of the following obligations at March 31, 2024:

	Due by Mar. 2025	Due by Mar. 2026	Due by Mar. 2027	Due after Mar. 2027	Total Due
Term loan	$ 64,638	$ 66,860	$ 5,732	$ -	$ 137,230
Lease liability	176,685	182,762	-	-	359,447
	$ 241,323	$ 249,622	$ 5,732	$ -	$ 496,677

Capital Resources

The Company has a $1,000,000 (June 30, 2023 - $500,000) commercial line of credit from which $Nil (June 2023 - $110,000) was drawn on March 31, 2024. The loan bears interest at the TD Bank prime lending rate plus 2.0% (June 30, 2023 ï prime plus 2.5%), is due upon demand, and is secured by a general security agreement covering the assets of PEC.

The Company has a term loan, the proceeds of which were used to purchase equipment. The loan was funded April 2021 in the amount of $313,748 of which $137,230 remains payable at March 31, 2024. The loan bears interest at 3.386%, requires monthly payments of $5,691 blended as to principal and interest, and will mature April 2026.

The Company had a Canadian Emergency Business Account (CEBA) with a balance of $Nil (June 2023 - $60,000) at March 31, 2024. In accordance with the CEBA terms, the Company repaid $40,000, and reduced the balance to $20,000 prior to December 31, 2023, which was then forgiven.

During the period the Company obtained pre-approval for an additional term loan to acquire new equipment costing US$463,525, plus delivery and installation costs. The machinery was ordered January 2024, was manufactured outside of Canada, and has now arrived at the Companyôs facility. It is in process of being installed and activated, including training on its use. The approved term loan could have financed up to 90% of the purchase price, with a term of up to five years, and interest based on prevailing market rates but expected to exceed 8%. Following a review of the Companyôs liquidity, cash flows, and capital under management it was determined that the Company would self-finance this equipment purchase. No amount has been drawn on this term facility.

The following transactions involving the Companyôs securities have occurred during the period:

- The Company issued 4,468,625 common shares in settlement of $357,490 in accounts payable, including $316,500 that was owed to related parties, and
- 350,000 stock options were exercised, including 150,000 exercised by a former director following his resignation from the Board of Directors, and
- The Company closed a non-brokered private placement wherein 5,040,000 working capital units were issued for gross proceeds of $1,260,000. Each working capital unit was comprised of one common share priced at $0.25 and one-half of a common share purchase warrant. Each full warrant entitles the holder to acquire one common share at $0.30 until November 8, 2025. The Company paid findersô fees of $54,845 and issued 219,380 broker warrants with each broker warrant entitling the holder to acquire one common share at $0.30 until November 8, 2025.

Related Party Transactions

The Company had transactions during the periods with key management personnel. These include consulting fees paid to Steve Smith (President and CEO), consulting fees and accounting fees paid to Michael D. Kindy (CFO), Directorsô fees paid to Directors of the Company and its subsidiary, salaries and benefits paid to Suren Jeyanayagam as an officer of PEC from December 2022 and to John Perreault until December 2022, legal fees paid to a legal firm in which William R. Johnstone (Corporate Secretary) is a partner, and share-based payments related to key management personnel. Compensation rates are agreed to by the related parties and are predicated upon prevailing market rates. The following expenses, involving these related parties, have arisen during the reporting periods:

Related Party Transactions - continued

Nine-month periods ended March 31	2024	2023
Salaries and benefits [1]	$ 195,655	$ 104,752
Consulting fees [1]	108,000	108,000
Directorsô fees [1]	45,000	43,500
Legal fees [2]	37,161	15,105
Accounting fees [2]	6,000	6,000
Cash based expenditures	$ 391,816	$ 277,357
Share-based payments	$ 61,394	$ 54,355

(1) Charged to net income as an element of employee and consultant compensation.
(2) Charged to net income as an element of professional fees.

The following balances are due to related parties, and were reported in the unaudited condensed interim consolidated financial statements as an element of accounts payable and accrued liabilities, on March 31 of each year:

	2024	2023
Consulting fees payable [1]	$ 334,452	$ 622,446
Director fees payable [1]	$ 155,650	$ 147,160
Salaries and benefits payable	$ 95,003	$ 5,000
Professional fees payable	$ 48,860	$ 59,673

(1) In November 2023, the Company issued 3,956,250 common shares in settlement of $316,500 due to related parties.

The following stock options have been issued to Directors, former Directors, and Officers of the Company and its subsidiary, and were outstanding on March 31, 2024:

Description	Expiry Date	Number of Common Shares
Stock options @ $0.10 per share [1,2]	Sep. 30, 2027	1,100,000
Stock options @ $0.27 per share	Mar. 28, 2029	250,000

(1) 150,000 stock options were held by an individual who resigned from the Board of Directors in April 2024 and then exercised these stock options.
(2) 200,000 stock options were exercised in May 2024

Convertible Instruments and Other Securities

The Company has the following securities issued and outstanding:

Common shares	Quantity	Amount
Common shares, June 30, 2022, Mar. 31, 2023, and June 30, 2023	26,687,196	$24,064,236
Common shares issued in settlement of accounts payable	4,468,625	357,490
Common shares, March 31, 2024	31,155,821	24,421,726
Stock options exercised	350,000	51,190
Private placement [1]	5,040,000	723,102
Common shares, as at the date of this document	36,545,821	$25,196,018

(1) The amount allocated to the common shares issued under the private placement has been based upon information available on the date of this document, and estimates of information not yet available, applicable to the costs of the offering and the Black-scholes valuation of the warrants and broker warrants issued.

In addition to the shares issued and outstanding the Company has issued share purchase warrants and stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the conversions and exercise of warrants and options along with the expiry date associated therewith.

Convertible Instruments and Other Securities - continued

Shares reserved	Expiry Date	Number of Common Shares
To be issued for Class A shares [1]		8,246
Stock options @ $0.10 per share	Sep. 2027	1,100,000
Stock options @ $0.27 per share	Sep. 2027	350,000
Shares reserved, March 31, 2024		1,458,246
Stock options exercised @ $0.10 per share	Sep. 2027	(350,000)
Warrants issued @ $0.30 per share	Nov. 2025	2,520,000
Broker warrants issued @ $0.25 per share	Nov. 2025	219,380
Shares reserved, at the date of this document		3,847,626

[1] Following the 2013 conversion of Class A Special Shares to common shares, 8,246 common shares remain reserved to be issued if and only if the remaining Class A shareholders identify themselves to the Company.

Fully diluted number of shares	Quantity
Common shares, March 31, 2024	31,155,821
Shares reserved, March 31, 2024	1,458,246
Fully diluted number of shares, March 31, 2024	32,614,067
Common shares issued after March 31, 2024	5,390,000
Changes in shares reserved after March 31, 2024	2,389,380
Fully diluted number of shares, at the date of this document	40,393,447

The following provides additional details with respect to share purchase warrants to the date of this document:

	Number of Warrants		Weighted Average Price per Warrant	Weighted Average Expiry Date
Balance, June 30, 2023 and March 31, 2024	-	$	-	-
Issued after March 31, 2024	2,739,380		0.30	Nov. 8, 2025
Balance, at the date of this document	2,739,380	$	0.30	Nov. 8, 2025

The following share purchase warrants are outstanding at the date of this document:

	Number of Warrants		Exercise Price	Expiry Date
Warrants issued May 8, 2024	2,520,000	$	0.30	Nov. 8, 2025
Broker warrants issued May 8, 2024	219,380	$	0.25	Nov. 8, 2025

Additional disclosures relative to stock options are as follows:

	Average Common Shares Under Option		Weighted Price per Option	Average Expiry Date
Balance, June 30, 2023	1,275,000	$	0.10	May 17 2027
Expired during the period	(175,000)		0.10	Nov. 1, 2023
Granted during the period	350,000		0.27	Mar. 28, 2029
Balance, March 31, 2024	1,450,000		0.14	Feb. 8, 2028
Exercised after the period	(350,000)		0.10	Sep. 30, 2027
Balance, at the date of this document	1,100,000	$	0.15	Mar. 21, 2028

Convertible Instruments and Other Securities - continued

The following weighted average assumptions were used to calculate the fair value of stock options granted:

	Mar. 31 2024	June 30 2023
Dividend yield	Nil	Nil
Risk free interest rate (%)	3.414	3.243
Expected stock volatility (%)	147.76	135.92
Expected life (years)	**5**	5

The following stock options, each of which has vested, are outstanding at the date of this document:

	Common Shares Under Option	Exercise Price	Expiry Date
Granted September 30, 2022	750,000 [(1)]	$ 0.10	Sep. 30, 2027
Granted March 28, 2024	250,000 [(1)]	$ 0.27	Mar. 28, 2029
Granted March 28, 2024	100,000	$ 0.27	Mar. 28, 2029

[(1)] Directors and/or Officers of the Company, or its subsidiary, hold these options.

The Company has no ability to cause these options to be exercised.

Financial instruments

The Companyôs financial instruments are comprised of the following:

Financial assets:	*Classification*
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost

Financial liabilities:	*Classification*
Bank operating loan	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost
Long-term debt	Amortized cost
Deferred taxes	Amortized cost

Amortized cost ï The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Impairment of Non-financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss.

Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an assetôs fair value less cost to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an armôs length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the income for the period.

Impairment of Non-financial Assets - continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

Impairment of Investments

Non-controlling interests, which are not financial instruments, and are less than a 20% ownership interest, are considered impaired when the carrying amount exceeds the recoverable amount. Non-controlling interests, which are not financial instruments, and are equal to or exceeding a 20% ownership interest (an equity instrument) is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset (a ñloss eventò) and that loss event, or events, has an impact on the estimated future cash flows of the non-controlling interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

Some items that may be taken into consideration in determining whether a loss event has occurred include significant financial difficulty of the investee, a breach of contract such as a default or delinquency in payments by the investee, it becomes probable that the investee will enter bankruptcy or other financial reorganization, or significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the investee operates, and such changes indicate that the cost of the equity instrument may not be recovered.

During the period there were no loss events nor any events that would cause a reversal, in whole or in part, of the impairment provision recognized during previous fiscal periods.

Risk Factors

Events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hamper the Companyôs ability to access credit when needed or rapid changes in foreign exchange rates may adversely affect its financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that constitute a significant portion of the Companyôs customer base. As a result, these customers may need to reduce their purchases, or the Company may experience greater difficulty in collecting amounts due from them. Any of these events, or others caused by uncertainty in world financial markets, may have a material adverse effect on the Companyôs business, operating results, and financial condition.

In addition to the foregoing, the Company is exposed to credit risk, concentration of credit risk, liquidity risk, and currency risk. The Companyôs primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure that the Companyôs risks and the related exposure are consistent with its business objectives and risk tolerance. There have been no changes to the risk management strategies during the current period.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Companyôs primary exposure to credit risk is in its accounts receivable. To mitigate this risk, management actively manages and monitors its receivables and obtains pre-payments where warranted. It has been determined that no allowance is required, as all amounts outstanding are considered collectible. The Company incurred no bad debts during the periods ended March 31, 2024 or March 31, 2023.

Risk Factors - continued

Concentration of credit risk
Concentration of credit risk arises when one or more customers, defined as a major customer, individually account for 10% or more of the Companyøs revenues during a reporting period. During the nine-month period ended March 31, 2024 the Company had two major customers who represented 19% and 16% of total revenues. In the comparative period, there were three major customers which represented 17%, 13% and 13% of revenues. Amounts due from major customers represented 55% of accounts receivable on March 31, 2024 (Mar. 31, 2023 - 65%). The loss of, or significant curtailment of purchases by a major customer, could have a material adverse effect on the Company's results of operations and financial condition. The Company monitors the relationship with all customers closely and ensures that every customer is subject to the same risk management criteria.

Liquidity risk
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. On March 31, 2024 the Company had current financial assets of $2,915,729 (June 30, 2023 - $1,190,379) available to settle current financial liabilities of $2,595,977 (June 30, 2023 - $2,315,614). The Company also has a bank operating line available in the amount of $1,000,000 (June 30, 2023 - $500,000), of which $Nil (June 2023 - $110,000) had been utilized on March 31, 2024. The Company manages its liquidity risk through the management of its capital which incorporates the continuous monitoring of actual and projected cash flows to ensure that it has sufficient liquidity to meet its operating commitments without incurring unacceptable losses or risking damage to the Companyøs reputation.

Market risks
The Company is exposed to interest rate risk due a bank operating loan that has a floating interest rate as well as currency risk related to accounts receivable, accounts payable, and nominal amounts of cash, prepaid expenses, and customer deposits, denominated in US dollars. Market risks give rise to the potential for future cash flows to fluctuate because of changes in interest rates or foreign exchange rates. Market risks are closely monitored and attempts are made to match foreign cash inflows and outflows. During the current period the Company has reported a foreign exchange loss in the amount of $4,948 (March 31, 2023 ï gain of $9,944).

Sensitivity to market risks
On March 31, 2024, the Company had:

- A bank operating loan that had not been drawn upon (June 2023 - $110,000), which bears interest predicated upon the TD Bank prime lending rate. Based upon the current amount due on the operating loan, a 1% increase in the TD Bank prime lending rate, as at the financial reporting date, would result in no additional interest expense over the next 12 month period.
- US$189,806 (June 30, 2023 ï US$183,892) included in accounts receivable. A 5% increase in the value of the Canadian dollar relative to the US dollar would result in a reduction of $9,490 in future cash inflow.
- US$343,226 (June 30, 2023 ï US$124,491) included in accounts payable. A 5% decrease in the value of the Canadian dollar relative to the US dollar would result in an increase of $17,161 in future cash outflow.

Based upon observations of recent market trends management believes that each of these outcomes is possible.

Forward-looking Information

Certain statements in this MD&A may constitute ñforward-lookingò statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiary, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words ñestimateò, ñbelieveò, ñanticipateò, ñintendò, ñexpectò, ñplanò, ñmayò, ñshouldò, ñwillò, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements.

Forward-looking Information - continued

Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as reduced funding, long sales cycles, currency and interest rate fluctuations, increased competition and general economic and market factors and including the risk factors summarized above under the heading ñRisk Factorsò. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements.

Given these risks and uncertainties, readers should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.